

THE LEONARD LETTER

*A weekly electronic newsletter about
California government, business and taxes
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State Board of Equalization*

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UNDER THE DOME

*****Clock is Running for CPR?*****

I reported a few weeks ago that I believed the Governor would be announcing the reorganization portion of his California Performance Review project by now. Since it is now May and no report has been forthcoming, the clock is running if the plan is to be adopted by the time the legislature adjourns on August 31st. Otherwise, the Governor will have to wait until 2005. I am hopeful that “delay” does not mean “dead in the water.” The size and scope of California government is of such complexity that even this ambitious project and talented staff are having trouble getting it under control in a few short weeks. We also need to turn our attention to the CPR report on governmental efficiencies. I expect that this will come out in mid-June with lots of legislative proposals and that those changes could still be adopted by the Legislature by late summer.

*****Tax Court Proponents and Independence*****

Let me make an observation about another argument put forth by the proponents of a state tax court. The criticism is that the Board of Equalization is not an independent, impartial tax court. I hear this fairly often. But the funny thing is, the critics seem equally divided as to what the Board’s bias is. Some say that we are too inclined to give money away to the taxpayers. Others maintain, with equal vehemence, that we are just shills for the state’s treasury.

I see that a group called COST (Council on State Taxation) has recently put forth this criticism in its newsletter, and my friend Assemblyman Tom Harman has written about it in the Orange County Register.

COST defines independence as a tribunal “that is not located in, or report, directly or indirectly, to the tax administrative agency or any other subordinate executive branch agency.” I could see the point if California had a tax tribunal that was made up of judges who were appointed by the Governor to hear cases and regulate tax law. However, the BoE members are directly accountable to the voters. Therefore, the voters get to judge the judges. What could be fairer than this? That COST draws no distinction between

elected and appointed members of a tribunal makes their argument incomprehensible. My suggestion to COST is if they want to engage the issue in California, they need to address the reality in California.

*****New Tax Proposed –Part 3*****

A recent Los Angeles Times poll found that 60% of Californians believe raising taxes is a reasonable solution to our state's financial problems. However, when you look at what people want to tax, you see that what they really want is for other people to pay higher taxes, not themselves. There is not a clamor to raise the sales tax, which everyone pays. However, the Times poll found 70% of people would support raising taxes on alcohol or tobacco. Those folks then might actually support A.B. 1416 by Assemblyman Vargas (D-Chula Vista). This bill seeks a \$1.50 increase to a pack of cigarettes to pay for various health programs. If you are a regular reader of Leonard Letter, then you have read about the dramatic increase in cigarette smuggling and counterfeiting we have seen recently. You know that for every increase in tobacco tax, there is a bigger incentive to avoid paying them altogether. The criminal element is catering to that desire and supplying more and more counterfeit tobacco products for Californians.

So the smokers end up with much higher taxes or illegal cheaper cigarettes (many with inferior production and less safety and testing than legitimate cigarettes), the shopkeepers make less sales and collect less tax, the state government and law enforcement fall farther behind in their attempts to identify and stop the criminals, and the state budget is no closer to being balanced than it was before. Californians may respond to polls by pushing the tax burden onto others, but ultimately, any tax increase affects us all as our economy and quality of life suffer and as those burdened with the tax hikes seek to avoid paying. It is common sense, but the legislature needs to stop spending money it does not have.

TAX TIPS

*****Help for New Businesses*****

Despite the challenges of doing businesses in California, tens of thousands of Californians try each year to make a go of a new venture. I see this at the BoE, where one-quarter of our one million seller's permits turn over each year. Many businesses fail because their owners do not fully understand the complexity of government regulations that apply to their venture. I recommend the following site to anyone starting, or operating, a business in the state: <http://www.ebizcenter.ca.gov/>

From the home page, you have three options. You can review information about what you need to know to start a business. You can find guides to the state's rules and regulations. You can also learn how to do business with the state. Each of the three

sections features dozens of links to other sites. This site is a good place to start your business research, but do not forget to check with the city and county in which you are operating for other rules and resources.

ISSUE FOCUS

Drop-Out Deception

Kudos to Dr. Alan Bonstee, president of California Parents for Educational Choice (<http://www.cpeconline.org/homepage.asp>), for his recent article in the Los Angeles Daily News exposing the California Department of Education's shell game in reporting the state's drop-out rates. He points out what I well remember: that until 1998, the CDE reported a drop-out rate based on unaudited numbers. Schools assumed that students who left their district enrolled somewhere else and so concluded that we had a 3.3% drop-out rate. The absurdity of that number comes into focus. In 1998, the state Board of Education required different numbers (though still unaudited). They show that during 1999-2003 school years, the most recent statewide dropout rate is 29.2 percent. Dr. Bonstee notes the sad case of the LA Unified School District, with a drop-out rate of 53% during those years.

Since such figures do not sound too good for the state of education, educators are now reporting "graduation rates" instead of "drop-out rates." Those are calculated differently and assert that 86.9% of students graduate high school. Dr. Bonstee believes this number low-balls the real drop-out rate, and that the new computer system that has been designed to track students through bar-coding will still miss the mark. He concludes, "California's shameful dropout rate is the greatest crisis facing the state. Our budget crisis will end someday, and we'll soon fix the workers' compensation mess. A teenager who drops out today, however, is a tragedy for the state for the next half century. Subtracting a phony number from 100 percent to get another phony number is nobody's idea of reform. The public deserves the truth."

BOE AND LEGISLATIVE DATES

May 7, 2004 --- Last day for policy committees to hear and report non-fiscal bills

May 9, 2004 --- Mother's Day (Publisher's Note: "God bless you, Mom!")

May 25-26, 2004 --- BoE meeting in Sacramento

May 28, 2004 --- Last day for Assembly to pass Assembly bills and for the Senate to pass Senate bills.

May 31, 2004 --- Memorial Day

June 15, 2004 --- Budget bill must be passed by midnight

June 15-17, 2004 --- BoE meeting in Culver City

NOTABLE DATES/ HISTORY

May 3, 1494 --- Christopher Columbus found Jamaica and named it “St. Iago”

May 3, 1802 --- Washington, D.C. incorporated as a city

May 3, 1992 - Five days of rioting and looting ended in Los Angeles, CA. The riots, which killed 53 people, began after the acquittal of police officers in the beating of Rodney King.

May 4, 1626 --- Indians sold Manhattan Island for \$24 in cloth & buttons

May 4, 1776 --- Rhode Island declared independence from England

May 4, 1932 --- Al Capone entered the Atlanta Penitentiary federal prison for income-tax evasion.

May 4, 1970 --- National Guard killed four at Kent State in Ohio

May 4, 1979 --- Margaret Thatcher became the first woman prime minister of Great Britain

May 4, 1998 --- Unabomber Theodore Kaczynski was given four life sentences plus 30 years by a federal judge in Sacramento, CA. The sentence was under a plea agreement that spared Kaczynski the death penalty.

May 5, 1816 --- American Bible Society organized (New York)

May 5, 1908 --- Great White Fleet arrived in San Francisco

May 6, 1960 --- President Eisenhower signed the Civil Rights Act of 1960

May 7, 1789 --- First inaugural ball held (for George Washington in New York, NY)

May 7, 1914 --- U.S. Congress established Mother's Day

May 7, 1940 --- Winston Churchill became British Prime Minister

May 8, 1794 --- U.S. Post Office established

May 9, 1941 --- English Army broke German spy codes

GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115
TDD service for the hearing impaired
TDD phones: 800-735-2929
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office, call toll-free 1-888-324-2798.

HOW TO CONTACT ME

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